



Developing a Comprehensive Public Housing Policy

Szolnok, Hungary

Background

Decentralization undertaken at the beginning of the 1990s increased the power and decision-making responsibilities of Hungarian local governments. In addition, local governments became the owners (landlords) of the state owned housing stock. Because expenses of the public housing sector far exceeded rent collections (due to low rents and monopolistic and inefficient housing maintenance), the easiest reaction to the new autonomy would have been to sell the units to the tenants at prices lower than their value. Some local governments, however, wanted to apply a different approach that would lead to a better functioning public housing sector. Because local government officials lacked an overview of the links between the various aspects of housing policy (privatization, rent setting, housing allowances, and housing management), however, they rarely succeeded in doing more than discouraging sales.

Innovation

In early 1992, the City of Szolnok (80,000 inhabitants) started to develop a comprehensive housing policy with elements to address rent reform, housing privatization and housing maintenance and to implement a means-tested housing allowance system. The novelty of the approach was its comprehensiveness: all the important aspects of housing policy were reviewed, and new solutions were suggested based on empirical investigation.

- The *rent reform* initiative introduced a market oriented rent system, where rents corresponded to apartment values. This led to a dramatic change in the rent structure of the city's housing stock of 4,000 units: rents for unpopular housing on the outskirts of the city (which were the highest in the previous system because the high cost of district heating was reflected in the rents) were only increased by 50 percent, whereas rents on units in good inner city neighborhoods with more highly valued individual gas heating were increased by almost 400 percent. On average the rent increase for all units was only 100 percent, introducing a market-imitating rent structure without increasing rents to actual market levels in the first step.
- A new *housing privatization strategy* was adopted. The strategy maintained the city's right to determine which stock was for sale and to set prices that, while substantially below the market, were not the "giveaway" prices used elsewhere.
- As part of a new strategy for *housing maintenance*, the municipality took over asset management from the state maintenance company. By introducing new private contracts, contract monitoring, and competition for the property management function, the city demonstrated to tenants that higher rents would be used to provide better service.
- The introduction of a *means-tested housing allowance system* was important to ensure that low-income families could afford rent and utility increases. A fully computerized system to evaluate requests for housing allowances was introduced and connected to the municipality's existing databases. This was the first income-based housing subsidy program in Eastern Europe.

Results

The new housing policy was introduced—after a long period of discussions, public hearings, and a vote by the local assembly—in May 1993. The municipality housing office was reorganized, and a field office was established to handle requests for housing allowances. The new rent structure won the acceptance of the citizens with a very low number of appeals. The number of applicants for the housing allowances has increased from the initially low level. A private maintenance company under contract with the city is providing maintenance services, resulting in improved maintenance of the housing stock.

Summary

- To improve the functioning of its public housing sector, the City of Szolnok developed a comprehensive housing policy that addressed rent reform, housing privatization, housing maintenance, and income-based housing subsidies. The housing policy was introduced in May 1993, resulting in the introduction of a market-oriented rent system and improved housing maintenance.

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